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GENERAL DISCUSSION ON PROGRESS IN THE IMPLEMENTATION OF
AGENDA 21, FOCUSING ON THE CROSS-SECTORAL COMPONENTS OF
AGENDA 21 AND THE CRITICAL ELEMENTS OF SUSTAINABILITY

Report of the High-level Meeting on Trade, Environment and
Sustainable Development submitted by the secretariats of
the United Nations Conference on Trade and Development and
the United Nations Environment Programme

Note by the Secretary-General

At its second session, held at United Nations Headquarters from 16 to 27 May 1994, the Commission on Sustainable Development agreed to review annually developments in the area of trade, development and environment, with a view to identifying possible gaps, and to promote cooperation and coordination (see E/1994/33, chap. I, para. 40). In pursuance of that request, the Secretary-General has the honour to transmit to the Commission at its third session the report of the High-level Meeting on Trade, Environment and Sustainable Development, held at Geneva on 21 and 22 November 1994 (see annex).



Annex

REPORT OF THE HIGH-LEVEL MEETING ON TRADE, ENVIRONMENT AND
SUSTAINABLE DEVELOPMENT, 21-22 NOVEMBER 1994, GENEVA,
PREPARED JOINTLY BY THE SECRETARIATS OF UNCTAD AND UNEP

1. Following the high-level informal meeting on "Trade and environment", co-hosted by UNCTAD and UNEP in February 1994, at its second session the Commission on Sustainable Development (CSD) requested both secretariats to co-host a follow-up informal meeting prior to the third session of the CSD. A two-day UNCTAD-UNEP high-level informal meeting on "Trade, environment and sustainable development" was held on 21-22 November 1994 at the Palais des Nations in Geneva to facilitate a policy dialogue among countries on the complex relationship between international trade liberalization, environmental management, and sustainable development.
2. The Chairman of the two-day informal meeting was H.E. Dr. Herbert M. Murerwa, Minister of Tourism and Environment and Acting Minister of Industry and Commerce, Zimbabwe. The meeting was opened by Mr. Carlos Fortin, Officer-in-Charge, UNCTAD; Ms. Elizabeth Dowdeswell, Executive Director, UNEP; and Mr. Philippe Roch, Director of the Federal Office of Environment, Forests and Landscape, Switzerland.
3. The meeting was divided into three informal sessions: (i) trade and competitiveness in relation to environmental policies; (ii) international environmental agreements and trade policy; (iii) strengthening international cooperation, including institutional cooperation. A fourth, open session, which included elements from the three previous sessions, was also held, with participation from industry, non-governmental organizations and other groups. Each of the sessions were co-chaired by two ministers, one from a developing country and one from a developed country.
4. In his opening remarks, the Officer-in-Charge of UNCTAD noted that analysis and debate at UNCTAD indicated that if trade and environment strategies were to be mutually supportive, there should be a full appreciation of and sensitivity to the differences in environmental priorities across countries, particularly between developing and developed countries. These differences also pointed to the need for capacity-building to implement environmental and trade policies in developing countries. He suggested that solutions to environmental problems did not lie primarily in environmental action per se, but policies which aimed at promoting economic development - for example, improvements in infrastructure - might simultaneously benefit the environment. In the area of trade, he stressed that improved market access, accompanied by improved transparency, could create the development opportunities necessary to strengthen environmental management in developing countries. At the same time, developing countries needed to formulate their own domestic and related environmental standards and to develop pragmatic policies to promote the export of "environmentally friendly products". Happily, empirical evidence suggested that developing and developed countries, as well as economies in transition, were implementing increasingly stringent environmental standards, thus reducing the scope of trade frictions. Finally, he stressed the need for international cooperation to address potential

limitations in the national implementation of domestic environmental policies because of inadequate infrastructure, finance and technologies.

5. The Executive Director of UNEP highlighted some of the work under way since UNCED in strengthening international cooperation in the field of environmental action. Progress included replenishment and restructuring of the Global Environment Facility (GEF); replenishment of the Multilateral Fund under the Montreal Protocol; agreement by the world community on the Convention on Desertification; entry into force of the Convention on the Law of the Sea, and other measures. Progress was also under way in the development of non-legal environmental management tools, including the use of economic instruments for environmental purposes and actions related to the internalization of environmental externalities; environmental valuation and resource accounting; environmental impact assessment, and environmental risk assessment. Progress in both the legal and environmental management areas had important direct and indirect trade implications. However, more action was needed in defining sustainable development, in terms of addressing underdevelopment and poverty in developing countries, and unsustainable production and consumption in developed countries. Trade liberalization represented an important engine for alleviating poverty and promoting development.

Session one: Trade and competitiveness in relation to environmental policies

6. The session was co-chaired, and introduced, by H.E. Mr. Kamal Nath, Minister of Environment and Forests, India, and H.E. Mr. Franz Blankart, Secretary of State for Foreign Economic Affairs, Switzerland. In their introductory remarks, the Co-Chairmen emphasized that environmental policy and standards could affect competitiveness favourably or unfavourably depending upon several factors.

7. They noted that although empirical analysis by UNCTAD, OECD and others suggested that the overall competitiveness effects of generally higher environmental standards did not play a major role in competitiveness, there were important cases in which higher environmental standards might have important consequences for both competitiveness and market access. More work was therefore needed in analysing the effects of more stringent environmental standards on both the exporting and the importing country.

8. In their view, the use of two basic tenets of trade policy, namely proportionality and non-discrimination, could help mitigate some of the adverse effects on trade and competitiveness. Moreover, areas of common ground between trade policy negotiators and environmental negotiators needed to be identified and successively enlarged. For example, achieving a balance between the goals of improved market access (trade policy objective) and harmonization of environmental policies and standards (environmental objective) was a hard task.

9. The Co-Chairmen considered that a restrictive trade policy based on environmental concerns would be unacceptable, particularly to developing countries. This view was echoed by participants; many countries expressed the view that unilateral application of trade measures did not have a useful role to play in building sustainable development. Considerable emphasis should instead

be given to expanding trading opportunities for developing countries, which were more likely to lead to environmental benefits.

10. The importance of internalizing environmental externalities was emphasized by several delegations. There was consensus on the need to identify mechanisms to compute environmental costs, as existing mechanisms were considered inadequate. On the other hand, it was also felt that although considerable methodological difficulties existed with regard to internalization, such issues were in essence political and economic. For example, it was argued that, to be realistic, the process of internalization through the enforcement of better environmental conditions and rigorous standards would have to accompany the process of development itself. Moreover, while internalizing environmental externalities was considered desirable, it was also recognized that internalization could have trade implications.

11. It was felt that there was a need for the distinction made in GATT in trade-environment discussions between products and process standards: while the former were covered under GATT, the latter were not; this basic distinction was considered to be crucial in discussions about market access and competitiveness. Another important issue in discussions on market access and competitiveness was the actual process of environmental standard setting. Although scientific certainty was crucial, other aspects such as economic feasibility, technical viability and social acceptability were also given some weight in the process of standard setting. As these other aspects varied from country to country, and sometimes between regions within a particular country, differences in standards should not be used to justify trade barriers, as they might not achieve the environmental purposes for which they had been intended.

12. The issue of harmonization was considered a complex one, and different views were expressed. While some form of regional harmonization was considered desirable, it was felt that there were several instances where harmonization might not yield trade and environmental benefits. It was also noted that more work was needed on harmonization of standards, and that there were legitimate grounds, as recognized by UNCED and the CSD, for differences in environmental standards between countries. At the same time, a view was expressed that it was important that environmental standards be improved gradually in both developed and developing countries. On the other hand, some speakers argued that higher standards might not be the only way in which environmental improvements would result; it was also important to change consumption patterns.

13. Future work could investigate the methodological assumptions and techniques of internalization of environmental externalities. Specific areas of interest such as internalization of externalities in commodity prices and the identification and promotion of environmentally friendly products and services, were also recognized by many countries. A major area of analysis related to the future role of international environmental standards in environmental problems of global or transboundary dimensions. Questions relating to the use of minimum environmental standards, or regional standards, might be beneficial in reducing trade-environment frictions, while addressing development priorities.

14. Future work should also investigate ways and means to ensure that legitimate domestic environmental standards and regulations were not used as a

means of denying market access, or introducing new forms of protectionism. In this context, more work was required to determine the effects on competitiveness of environmental policies. Recognition was needed of the inherent dangers of hidden protectionism which might arise from more stringent environmental measures. The competitiveness effects the use of economic instruments for environmental purposes needed also to be investigated. There was strong consensus that the best way to address international environmental problems was through increased international cooperation, international support for capacity-building, technology transfer, and technical assistance for developing countries.

Session two: International environmental agreements (IEAs) and trade policy

15. The session was co-chaired by H.E. Dr. Herbert Murerwa, Minister of Tourism and Environment and Acting Minister of Industry and Commerce, Zimbabwe, and Ms. Eileen Claussen, Special Advisor to the President and Senior Director for Global Environmental Affairs, National Security Council, United States of America. In their introductory remarks, the Co-Chairpersons noted the importance of universal participation in IEAs, the need to ensure compatibility between existing IEAs and the important work of GATT/WTO.

16. There was a strong sense that the international trading system need not conflict with the trade measures used in IEAs. Moreover, there was a strong preference for the use of positive measures rather than trade measures. It was felt that trade measures should be used only as a last resort, and if they were used, they should be the least trade-restrictive possible. The importance of transparency and the need to base measures on sound scientific principles was often emphasized.

17. Several participants noted that, when trade measures under IEAs did exist, there was a need to ensure that: (i) the IEA reflected genuine international consensus, including negotiation of the agreement under United Nations auspices and an open accession process to allow the widest possible participation; (ii) the legal compatibility question should be approached with caution; (iii) if trade measures were adopted, they reflected trade principles, including least trade restrictiveness, non-discrimination, transparency and specificity.

18. Discussion focused on several aspects of the relationship between IEAs and trade policy, both within the specific context of whether particular measures were compatible with GATT and in the wider context of the indirect trade aspects of existing and emerging agreements. Several participants noted that unilateral action taken under the cover of IEAs was not conducive to building international cooperation.

19. It was pointed out by several countries that, of the approximately 180 international environmental agreements, about 10 per cent contained trade-related measures. Some of those agreements, including the Montreal Protocol and CITES, were among the most important and effective environmental agreements which had been adopted by the international community. Other participants noted that the use of trade measures had been helpful in building universal participation. However, many participants noted that legal and other incompatibilities between trade rules and trade measures in IEAs could arise.

20. It was noted that many of the trade-related measures in IEAs did not constitute a threat to trade policy or rules. However, some felt that trade measures should not be taken outside the WTO, that such measures should conform with the Technical Barriers to Trade Agreement (TBT) and other relevant agreements, and that clarification was needed of the competitiveness effects of IEAs on developing countries. Some participants pointed to the need for more work, in terms of case studies and empirical analysis, in determining whether trade measures might compromise obligations codified in trade rules. It was noted by many that the multilateral trading system was based on an often fragile balance among countries, and great care was needed to ensure that trading rights were not undermined by arbitrary means.

21. Options such as the development by international consensus of criteria or guidelines (within the WTO) on trade measures in future IEAs might be considered. Some participants noted the importance of such work, taking into account the expertise of other international organizations, particularly UNEP. Many participants pointed to the complexity of this issue, the need for more analysis and care before any recommendations were made, and the need to build predictability and provide guidance for future environmental negotiations regarding the use of trade measures in IEAs.

22. In examining the implementation of IEAs in developing countries, there was a need to address wider issues of development assistance. For example, it was mentioned that despite the United Nations ODA target of 0.7 per cent of GNP, the actual average level of contributions had fallen, according to one participant, to less than 0.29 per cent. GEF funding levels were below commitments, and momentum in financial commitments had dropped considerably since UNCED.

23. Future work on IEAs should focus on more detailed empirical analysis of the use of trade measures, including conditions for their legitimate use, design of such measures, special circumstances of developing countries in relation to IEAs and trade policy, and the additional financial and other requirements for developing countries. Such analysis could examine both the use of trade measures themselves, and how to maximize the effectiveness of IEAs in general. Future work should also address other issues of relevance to IEAs, including dispute avoidance and dispute settlement procedures, and the need to strengthen and examine international risk assessment and harmonization issues, including the role of scientific evidence and justification in relation to IEAs.

Session three: Strengthening international cooperation, including institutional cooperation

24. The session was co-chaired by H.E. Mr. John Gummer, Secretary of State for the Environment, United Kingdom, and H.E. Mr. Preecha Musikal, Deputy Minister, Ministry of Science, Technology and Environment, Government of Thailand. The Co-Chairmen introduced the session by stressing the importance of linking trade-environment compatibility issues within the broader framework of development priorities. It was noted that comprehensive strategies to address environmental protection could lead to the expansion rather than the contraction of international trade, and that greater trading opportunities could in turn accelerate the drive towards better environmental quality. It was recognized that issues of trade, environment and sustainable development were cross-cutting

and required close institutional cooperation. the importance of the WTO Committee on Trade and Environment was underlined. The creation of the UNCTAD Ad Hoc Working Group on Trade, Environment and Development was welcomed. UNEP was requested to undertake empirical, technical and policy examination of the environmental aspects of the trade-environment debate, and the joint work plan of UNCTAD and UNEP was welcomed.

25. Several participants noted that the recent gains in market access achieved in the Uruguay Round could be seriously eroded if the trade interests of all countries, and most particularly developing countries, were not taken fully into account in the design and implementation of new trade-related environmental policies. In this regard, widespread use of trade distortive measures such as subsidies and non-tariff barriers was viewed by most participants as counter-productive to sustainable development. Several examples were given of the difficulties which developing countries faced in market access and in obtaining fair prices for their products, particularly for commodities. For example, subsidies, quotas and other measures imposed by developed countries undermined market access for bananas, making it difficult to internalize environmental externalities.

26. It was also noted that in searching for alternatives, solutions based on bio-technologies and appropriate technologies which were indigenous to developing countries should be encouraged. Several participants noted the importance of continued policy dialogue between developed, developing and transition economies, with the participation of representatives from the private sector, industry, and non-governmental organizations. In addition, several participants noted the importance of work under way in OECD, UNDP and BCSD (Business Council for Sustainable Development) on trade and environment.

27. Many participants welcomed the working level cooperation between the UNCTAD and UNEP secretariats on trade, environment and sustainable development. It was felt that work done by these two secretariats was complementary to the work begun by GATT/WTO and by the CSD. Several participants drew attention to the effective cooperation of the secretariats of GATT/WTO, UNEP and UNCTAD, in accordance with their comparative advantages. Some suggested that such arrangements at the secretariat level should continue in an informal manner, particularly since more analytical and conceptual work was required on trade-environment-sustainable development linkages. In addition to the work of the secretariats, the CSD had agreed to review this agenda item annually and had an important coordinating role in this regard. Participants also supported UNCTAD's role as United Nations Task Manager on trade and environment.

28. UNCTAD's Ad Hoc Working Group on Trade, Environment and Development was considered a useful forum and was expected to make a considerable contribution to policy analysis and consensus-building on these topics. Participants commended the excellent work of UNCTAD on market access and competitiveness, on its country-case studies in terms of reconciling trade and environmental policies and in reflecting developing country concerns in international debates on trade and environment, on eco-labelling and on a database on environmental measures with a potential impact on trade. They called upon UNCTAD to undertake more empirical analysis in such areas in relation to the trade-environment discussions at GATT/WTO and elsewhere.

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29. Participants welcomed the work of UNEP on trade and environment and asked UNEP to provide sound environmental input to the current discussions, including those taking place at GATT/WTO. Many participants called for increased analysis of IEAs by UNEP with a view to assessing their environmental necessity and effectiveness. Several participants called for an increased role for UNEP's regional offices on trade-environment issues, for greater emphasis on raising environmental understanding, awareness-building and education, and for technical analysis in such areas as prior informed consent, environmental reviews of trade policy, environmental dispute avoidance, analysis of intellectual property rights in technology transfer and international cooperation.

Session four: Open session on trade, environment and sustainable development

30. The session was chaired by H.E. Ms. Sirpa Pietikainen, Minister of Environment, Finland, and H.E. Ms. Cecilia Lopez, Minister of Environment, Colombia. The session was introduced by Dr. Robert Repetto of the World Resources Institute, Washington, who referred to the difficulties of determining the competitiveness effects of environmental policies. He said that firms in both developed and developing countries claimed that their competitiveness was adversely affected because of higher environmental standards. Logically it was difficult to make both these claims compatible. He also said that the best way to make trade and environment policy objectives compatible was to ensure greater market access, particularly for developing countries, greater cooperation on transboundary environmental issues and stronger environmental measures at the national level.

31. The participation of NGOs in this session was appreciated, and it was felt that they made a valuable contribution to the discussions.

32. In concluding the two-day meeting, the Executive Director of UNEP stated that UNEP would review carefully the comments and recommendations presented by participants. In order to provide an indication of UNEP's follow-up work from the meeting, she drew preliminary conclusions about the course of UNEP's future work on trade, environment and sustainable development:

(a) Platform: the original idea of the informal high-level meetings was to facilitate a policy dialogue among ministers and senior officials from developing and developed countries. After two high-level meetings in 1994, it was felt that smaller meetings were needed both to assess specific technical issues and to address regional concerns. The first in a series of technical meetings, on environmental reviews of trade policy, would be organized by UNEP in early 1995. UNEP would also host regional meetings on trade-environment in 1995, beginning with Latin America and the Caribbean region. UNEP also looked forward to continued close cooperation with UNCTAD on their joint work plan, particularly with regard to education and training sessions in developing countries;

(b) Empirical analysis: in addition to the joint UNCTAD-UNEP work plan on providing empirical analysis on eco-labelling, the UNEP secretariat would organize a series of small, ad hoc expert meetings on trade and environment, including: (a) environmental reviews of trade policy; (b) dispute management and dispute avoidance; (c) international environmental agreements and trade

policy, with initial emphasis on trade in chemicals and prior informed consent procedures; (d) environmental standards and standards equivalency; and (e) environmental assessment, procedural coherence and harmonization;

(c) Strengthening alliances: in order to reflect the breadth and importance of trade-environment-sustainable development discussions, UNEP looked forward to strengthening cooperation with UNCTAD, GATT/WTO, OECD and UNDP, as well as with the World Bank, IMF, regional development banks and specialized agencies. In addition, UNEP recognized the importance of working closely with NGOs from developing and developed countries on this issue, and with the private sector. In the latter context, UNEP would be producing a background paper on the role of the private sector in trade-environment issues in 1995;

(d) Education, training and capacity-building: many participants underlined the key importance of increased public education, environmental awareness, environmental capacity-building and technical assistance. This was an area of critical importance, and UNEP would be increasing efforts to build environmental education, including increasing public understanding of trade-environment issues.

33. In his concluding remarks, the Officer-in-Charge of UNCTAD extended his gratitude to the Government of Switzerland for its generous support for the meeting. With regard to UNCTAD's work, he drew attention to the following points:

(a) Analytical and conceptual work: he noted the comment made by many participants on the urgent need for more empirical evidence on the links between trade and environment policies, the effects of both trade liberalization and trade restrictions on the environment, and the trade effects of environmental policies. He pointed out that such analysis was already being conducted at UNCTAD jointly with UNDP and with UNEP. The initial results of this empirical research had shown that trade liberalization had not, in most cases, resulted in environmental degradation. They also suggested that environmental policies had not had major trade-distorting effects, but their impacts on competitiveness might be significant for some sectors and for some products. Empirical studies had also suggested that there were instances when eco-labelling could have a negative effect on competitiveness. UNCTAD's Commodities Division was undertaking ongoing studies on the internalization of environmental externalities. UNCTAD would also intensify cooperation with GATT/WTO, UNDP and UNEP on trade-environment issues, as well as follow up the insights and suggestions provided at the high-level meeting;

(b) Collection of information: UNCTAD's work was geared to closing the gap between theoretical assumptions about trade-environment links and empirical evidence. UNCTAD was developing a database on environmental measures which could have a potential effect on trade, entitled GREENTRADE;

(c) Capacity-building: the information collected through UNCTAD's technical assistance programme was being disseminated by means of regional and national workshops. In addition, UNCTAD had developed a training course on trade and environment, pilot versions of which had been delivered at Kuala

Lumpur, New Delhi, Barbados and Nairobi. These workshops and the training activities were important exercises in capacity-building;

(d) Forum for discussions: at the intergovernmental level, both the Ad Hoc Working Group on Trade, Environment and Development and discussions in the Trade and Development Board would be important exercises in consensus-building. It was also hoped that these deliberations could provide useful inputs to the work being undertaken elsewhere, particularly at GATT/WTO.

34. In his conclusions, the Chairman said that sustainable development was fundamental to an improved quality of life which would benefit not only present but also future generations. In this context, trade and environment were ends in themselves, but indispensable means to achieving the global objective of sustainable development. It was indeed a challenge for all to prevent potential conflicts between trade and environment. He felt that the trade and environment debate should clearly incorporate the development dimension, as the overall purpose was sustainable development. From the perspective of developing countries, international cooperation should assist developing countries by providing greater access to technology, as well as financial assistance and human resource development.

35. He felt that institutional cooperation and coordination between UNCTAD and UNEP should be strengthened. He outlined UNCTAD's special role in analysis of the linkages between trade, environment and development, policy analysis, conceptual work, consensus-building, and technical cooperation, while keeping in focus the special conditions and needs of developing countries. UNEP's role was to focus on the environmental dimension to the trade and environment debate, particularly by providing an appropriate scientific basis for environmental policies. As the servicing secretariat for a number of international environmental agreements (IEAs), UNEP was also well placed to analyse the effectiveness of the use of trade measures in IEAs.

36. Finally, he pointed out that policy coherence and coordination at the national level would be of great significance in resolving trade and environment problems. It was contended that national positions differed widely between trade and environment platforms. Thus it was important to coordinate these positions in such a way as to enable a consensus to be achieved at the international level.
